

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 CIAE-00 DODE-00 PM-05 H-02
INR-10 L-03 NSAE-00 NSC-05 PA-02 SP-02 SS-15
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XMB-04 OPIC-06 LAB-04 SIL-01 OMB-01 /127 W
-----114728 161818Z /45

R 161727Z MAY 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8569
DEPARTMENT TREASURY
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAG: ECON, EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS IN GERMANY
(MAY 9-15)

REF: BONN 8565

1. CABINET APPROVES DM 0.9 BILLION SUPPLEMENTARY
DRAFT BUDGET FOR 1978 -- FINANCE MINISTER HOLDS OUT
PROSPECTS FOR EARLY SUBMISSION OF EXPANSION-ORIENTED
DRAFT BUDGET FOR 1979, BUNDESBANK NET FOREIGN POSITION,
BANK LIQUIDITY, FOREIGN EXCHANGE MARKET (TABLE), IFO
CRITICIZES MONETARY POLICY, MONEY MARKET (TABLE),
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BOND MARKET (TABLE) FOREIGN DM BONDS.

2. CABINET APPROVES DM 0.9 BILLION SUPPLEMENTARY DRAFT
BUDGET FOR 1978 -- FINANCE MINISTER HOLDS OUT
PROSPECTS FOR EARLY SUBMISSION OF EXPANSION ORIENTED
DRAFT BUDGET FOR 1979:

THE FINANCE MINISTRY'S DRAFT OF A DM 0.94 BILLION SUPPLEMENTARY BUDGET FOR 1978 WAS APPROVED BY THE CABINET ON MAY 10, AS GENERALLY EXPECTED (SEE BONN 8565). FIRST READING IN THE BUNDESTAG HAS BEEN SCHEDULED FOR JUNE 1, AND THE GOVERNMENT HOPES TO OBTAIN LEGISLATIVE APPROVAL PRIOR TO PARLIAMENT'S SUMMER RECESS (JUNE 23 - SEPTEMBER 18). IN EXPLAINING THE SUPPLEMENTARY BUDGET TO THE PRESS, FINANCE MINISTER MATTHOEFER REPORTEDLY SUGGESTED THAT THE FORTH-COMING FEDERAL DRAFT BUDGET FOR 1979 WILL BE MORE EXPANSION-ORIENTED THAN PREVIOUSLY CONTEMPLATED. THE MODEST 6 PERCENT EXPANSION OF EXPENDITURES OVER 1978 LEVELS ENVISAGED IN LAST YEAR'S MEDIUM-TERM FINANCIAL PLANNING EXERCISE WOULD NOT BE COMMENSURATE WITH THE CURRENT UNDERLYING MACRO-ECONOMIC SITUATION, MATTHOEFER SAID. THE MINISTER FAILED TO QUANTIFY CURRENT FEDERAL SPENDING PLANS FOR NEXT YEAR, BUT ANNOUNCED A TENTATIVE CABINET DECISION FOR JUNE 7 AND FORMAL CABINET APPROVAL OF THE 1979 DRAFT BUDGET FOR JUNE 21. THIS SIGNALS EFFORTS TO COMPLETE THE DRAFTING PROCESS AT AN UNUSUALLY EARLY TIME. IN THE PAST, A CABINET-APPROVED DRAFT HAS GENERALLY NOT BEEN AVAILABLE UNTIL SEPTEMBER.

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TO SECSTATE WASHDC 8570
DEPARTMENT TREASURY
INFO AMEMBASSY BRUSSELS
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3. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD MAY 1-7 BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.2 BILLION TO DM 90.9 BILLION. FOREIGN EXCHANGE HOLDINGS DECLINED BY DM 81 MILLION AND HOLDINGS OF SDR'S BY DM 47 MILLION. THE FRG'S IMF GOLD TRANCHE POSITION INCREASED BY DM 72 MILLION AND FOREIGN LIABILITIES BY ABOUT DM 140 MILLION.

4. DURING THE SAME PERIOD BANK LIQUIDITY DECLINED BY DM 0.8 BILLION. FACTORS REDUCING LIQUIDITY WERE INCREASES OF DM 0.7 BILLION IN CURRENCY IN CIRCULATION AND OF DM 0.9 BILLION IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK AND THE ABOVE MENTIONED

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DECLINE IN THE BUNDESBANK'S FOREIGN POSITION. OTHER FACTORS INCREASED LIQUIDITY BY DM 1.0 BILLION, NET.

THE BANKS FINANCED THE LIQUIDITY LOSS BY INCREASING LOMBARD BORROWINGS BY DM 1.9 BILLION. AT THE SAME TIME THEY REDUCED SPECIAL REDISCOUNT BORROWINGS BY DM 0.8 BILLION (TO DM 3.3 BILLION) AND NORMAL REDISCOUNT BORROWINGS BY DM 0.3 BILLION TO DM 17.0 BILLION.

5. FOREIGN EXCHANGE MARKET:

THE DOLLAR STRENGTHENED CONSIDERABLY AGAINST THE DEUTSCHE MARK. THE GERMAN FINANCIAL PRESS ATTRIBUTED THIS TO THE INCREASE IN THE US DISCOUNT RATE AND PRESIDENT CARTER'S READINESS TO LOWER TAX REDUCTIONS. DURING THE PERIOD UNDER REVIEW FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

	SPOT DOLLARS			FORWARD DOLLARS	
	(IN DM PER \$1.--)			(IN PCT. PER ANNUM)	
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH
MAY 9	2.0910	2.0960	2.0955	-4.5	-4.6
10	2.0925	2.0919	2.0825	-4.0	-4.4
11	2.0915	2.0919	2.1005	-4.8	-4.4
12	2.1055	2.1096	2.1110	-4.7	-4.6
15	----- GERMAN HOLIDAY -----				
16	2.1230	2.1223	N.A.	N.A.	N.A.

6. IFO INSTITUTE CRITICIZES MONETARY POLICY:

THE IFO ECONOMIC RESEARCH INSTITUTE HAS CRITICIZED THE
BUNDESBANK'S MONETARY POLICY. THE INSTITUTE SAID THAT
SINCE SEPTEMBER OF LAST YEAR MONETARY EXPANSION IN THE
FRG HAS GROWN AT A DISTURBING PACE. IN THE INSTITUTE'S
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VIEW, IN AUTUMN OF LAST YEAR THE BUNDESBANK IN LARGE
PART GAVE UP ITS POLICY OF FLEXIBLE REGULATION OF THE
MONEY SUPPLY AND THEREBY IN LARGE DEGREE GAVE UP ITS
OBJECTIVE OF ACHIEVING STEADY MONETARY GROWTH. WITH
THE LOWERING OF THE DISCOUNT AND LOMBARD RATES IN
DECEMBER AND SUBSEQUENT SUBSTANTIAL FOREIGN EXCHANGE
MARKET INTERVENTIONS OF THE BUNDESBANK WHICH, IN
THE INSTITUTE'S VIEW DOUBTLESSLY EXCEEDED MERE
RATE SMOOTHING OPERATIONS" THE BUNDESBANK'S POLICY IS
IN DANGER OF LOSING "PROFILE AND EFFICIENCY".

IN THE INSTITUTE'S VIEW THERE IS NO IMMEDIATE DANGER
OF INFLATION IN THE FRG DUE TO LOW CAPACITY UTILIZATION
AND THE WEAK ECONOMIC RECOVERY. HOWEVER, BECAUSE OF THE
LIMITED OPPORTUNITIES OF STIMULATING EFFECTIVELY ACTI-

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FM AMEMBASSY BONN
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VITIES OF FIRMS AND INDIVIDUALS THROUGH MONETARY MEASURES, EXCESSIVE MONETARY GROWTH IS DANGEROUS. THUS, THE INSTITUTE CONCLUDES, THE BUNDESBANK SHOULD QUICKLY RETURN TO A MORE STABLE MONETARY POLICY WHICH WOULD PROMOTE STABLE DEVELOPMENT OF THE MONEY VOLUME AND PRICE AND INTEREST RATE LEVELS AND, THEREBY, PROVIDE A MORE FAVORABLE BASIS FOR RISK-AFFLICATED DECISIONS.

7. MONEY MARKET:
THE GERMAN MONEY MARKET REMAINED TIGHT. FOR THE PERIOD UNDER REVIEW FRANKFURT INTERBANK LENDING RATES WERE AS FOLLOWS:

CALL MONEY ONE-MONTH THREE-MONTH
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MAY 9	3.50-3.60	3.55	3.55
10	3.50-3.60	3.55	3.60
11	3.50-3.60	3.55	3.60
12	3.50-3.60	3.55	3.60
15	----- GERMAN HOLIDAY -----		

8. BOND MARKET:
ON THE MARKET FOR DOMESTIC BONDS PRICE DECLINES ACCELERATED. ACCORDING TO THE PRESS, AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY DEVELOPED AS FOLLOWS (COMPARED WITH 1978 LOW POINT IN LATE FEBRUARY):

REMAINING MATURITY							
(YEARS)	1	3	5	7	9	10	
	---	---	---	---	---	---	

MAY 12	3.95	4.95	5.35	5.75	6.05	6.15
MAY 5	3.85	4.75	5.20	5.70	6.00	6.10
FEBRUARY 24	3.75	4.50	4.95	5.40	5.65	5.75

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ICA-20 CEA-01 STR-07 AID-05 COME-00 EB-08 FRB-01
XMB-04 OPIC-06 LAB-04 SIL-01 OMB-01 /127 W
-----114802 161819Z /45

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FM AMEMBASSY BONN
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9. FOREIGN DM BONDS:

THE DM 100 MILLION CONVERTIBLE BOND ISSUE OF THE
JAPANESE SEIYU STORES LTD. (COUPON 3 3/4 PERCENT, ISSUE
PRICE 100, MATURITY 8 YEARS -- SEE BONN 8565) WILL
BECOME ELIGIBLE FOR CONVERSION INTO SEIYU COMMON STOCK
ON SEPTEMBER 1 1978, AT A PRICE OF YEN 1275 PER SHARE.
FOR CONVERSION A FIXED EXCHANGE RATE OF DM 1 EQUALS
YEN 108.54 HAS BEEN ESTABLISHED FOR THE FULL MATURITY OF
THE LOAN. THE DANISH DANSK EKSPORT FINANCING FUND IS
PRIVATELY PLACING BONDS OF DM 100 MILLION CARRYING A
COUPON OF 5 3/4 PERCENT, AN ISSUE PRICE OF 100 AND AN
AVERAGE MATURITY OF 3 YEARS. IN VIEW OF THE WEAK CON-
DITIONS PREVAILING ON THE MARKET FOR FOREIGN DM BONDS
THE SUB-COMMITTEE FOR FOREIGN DM BONDS OF THE CENTRAL
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CAPITAL MARKET COMMITTEE ON MAY 12 DECIDED TO STOP
TEMPORARILY THE FLOTATION OF SUCH BONDS. THE NEXT

MEETING OF THE COMMITTEE IS SCHEDULED FOR JUNE 7, SO THAT IT IS LIKELY THAT THIS DECISION WILL BE MAINTAINED AT LEAST UNTIL THAT DATE. THE MARKET FOR FOREIGN DM BONDS HAD WEAKENED SUBSTANTIALLY DUE TO THE STABILIZATION OF THE DOLLAR AGAINST THE DEUTSCHEMARK WHICH INITIATED A SHIFT OF DEUTSCHEMARK INVESTMENTS INTO DOLLAR INVESTMENTS.

(NOTE: PRELIMINARY MARCH ORDER VOLUME DATA ARE REPORTED BY SEPTEL.)

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Message Attributes

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Draft Date: 16 may 1978
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Decaption Note:
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Litigation History:
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Office: ACTION EUR
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Review Content Flags:
Review Date: 10 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2683087
Secure: OPEN
Status: NATIVE
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TAGS: MPOL
To: STATE TRSY
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vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/5f59c19c-c288-dd11-92da-001cc4696bcc
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